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## **Oil Pipeline from Myanmar to China: Competing Perspectives**

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*An oil pipeline is set to be constructed to connect Myanmar with China. To make sense of the development, one can benefit from paying attention to industry descriptions about the project, rather than relying on geo-strategic explanations alone.*

On 15 JUNE 2009, the China National Petroleum Corporation (CNPC) announced a plan to begin constructing an oil pipeline connecting Myanmar with China in September. The 1,100 km crude oil line starts from the port of Kyaukryu in Myanmar and end in Kunming, the capital of China's Yunnan province.

What drives CNPC to commit itself to building and operating an oil pipeline that traverses Myanmar's complex geographical terrain, in addition to dealing with the complexities of state-society relationships in that country? The oil pipeline is meant to transport oil imported from the Middle East and Africa. How can this seeming desperation for transport security be justifiable?

### **Geo-strategic Explanations**

The said pipeline project easily confirms insights from text-book arguments of geo-strategy. After all, when three university professors based in Yunnan province first proposed the project in 2004, they popularised the phrase 'Malacca Dilemma'.

The idea of a 'Malacca Dilemma' runs as follows: Unspecified hostile powers may decide to deliberately sabotage oil tankers bound for China. In response, China would need naval escort capacity in the Strait of Malacca as well as in the South China Sea. However, should it project blue water naval power into Southeast Asian waters, China risks being treated as a threat. States in maritime Southeast Asia may credibly choose to involve outside powers hostile to China for self-protection.

Accordingly, an oil pipeline through Myanmar becomes a 'second-best' choice: by-pass the Malacca Strait altogether and avoid ending up in a situation that is adverse to the interests of China. Besides, an oil pipelines could also strengthen security ties between China and Myanmar.

That argument errs by taking one scenario – all-out war -- as a constant possibility. It also does not make much sense since during combat, a pipeline that is fixed and immobile makes a much easier target than a moving tanker in the ocean. Finally, Myanmar certainly does not want to be drawn into a war between China and another power.

### **Industry Descriptions of the Pipeline**

To make sense of the oil pipeline, one has to know of a parallel natural gas pipeline.

The industry arrangement that led to a plan to construct the gas pipeline is a thirty-year sales contract between Myanmar and China, signed in late 2008. The party to produce the gas for sale is a consortium of companies from three countries: Daewoo International (of South Korea, 60% stake), ONGC Videsh, the overseas investment of India's state-run Oil and Natural Gas Corp (20%), GAIL Ltd.(India, 10%), and KOGAS (South Korea, 10%).

Division of stakes in the consortium can change should Myanmar's state-run Myanmar Oil and Gas Enterprise (MOGE) decide to exercise its right to take 15% of the stake, which would still leave Daewoo 51% and a corresponding reduction of stake of the other three holders.

From these percentage numbers we can derive a couple of insights, if we bear in mind that Myanmar started to invite foreign companies to explore oil/gas in its territory since the early 1980s. First, the government of Myanmar and international energy-producing companies entered into an arrangement based a careful calculation of interests and influences. Second, the absence of a stake for CNPC in the production phase is a good indicator of a desire on the part of the government of Myanmar not to be dependent on a Chinese company for both production and sale.

As a matter of fact, there is still a possibility for the consortium of producers to join CNPC in investing in the gas pipeline within Myanmar (870 km), taking a minority stake of up to 49.9%. That arrangement, if materialised, hedges against cut-off of supply for non-commercial/technical reasons.

For CNPC, to simultaneously build two pipelines along the same route significantly reduces construction cost. In addition, Myanmar is known to have proven crude oil reserves of 3.2bn barrels. The oil pipeline can ship some of that oil to China in the future.

### **What Kind of Security?**

Yunnan province, where the pipelines end, has no indigenous oil fields and hence no stable local sources of supply. For decades, trucking from refineries on the coast of Guangdong (over 2,000 km away) has been the only means of providing fuel supply. Installation in 2005 of a fuel pipeline from Maoming in Guangdong to Kunming in Yunnan is helpful. Still, the prospect of Kunming having its own oil refinery project explains the local government's support of an additional pipeline.

The oil pipeline from Kyaukryu to Kunming may also have resulted from CNPC's decision to compete with Sinopec – owner and operator of the existing fuel pipeline – for market share in Yunnan and its neighbouring provinces. Co-existence of the two pipelines adds to security of everyday supply for consumers in those mountainous areas of south-western China.

For China, the Kyaukryu – Kunming oil pipeline enhances energy supply security for a local region. The pipeline's limited capacity (20 million tonnes of crude per year) contributes little to nation-wide needs, not to mention the challenge of quick movement of fuel from Yunnan to other localities of China.

Observers of Southeast Asia and Northeast Asia need to pay attention to such industry descriptions.

Geo-strategic thinking can offer good insights, but only when supported by strong evidence on the ground.

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